

Message Text

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SUBJECT: FINLAND-EE TRADE AGREEMENTS

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HELSINKI A-68, APRIL 10, 1974

HELSINKI A-220, AUGUST 3, 1973

HELSINKI 2262, AUGUST 21, 1973

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SUMMARY: FINNISH-BULGARIAN AND FINNISH-HUNGARIAN FREE

TRADE AGREEMENTS ARE SIMILAR IN FORM: A) BASIC AGREEMENT, B) PROTOCOL COVERING AGRICULTURAL COMMODITIES, C) PROTOCOL COVERING "SENSITIVE PRODUCTS" WITH RETARDED TARIFF REDUCTIONS AND D) RULES OF ORIGIN. ONLY SIGNIFICANT DIFFERENCE BETWEEN TWO AGREEMENTS IS SENSITIVE PRODUCT LIST, REFLECTING FACT THAT HUNGARY HAS BROADER INDUSTRIAL BASE TO PROTECT. PRACTICAL IMPACT OF AGREEMENTS IS LIKELY TO BE SLIGHT, SINCE DYNAMICS OF NON-CONVERTIBLE PAYMENTS ACCOUNT LIKELY TO NULLIFY EFFECTS OF TARIFF REDUCTIONS. RULES OF ORIGIN ARE ALMOST IDENTICAL TO EC/EFTA RULES, AN UNFORTUNATE AND UNNECESSARY PROLIFERATION. END SUMMARY

1. BACKGROUND: THE FINNISH INITIATIVE TO DO SOMETHING FOR THE "SMALLER CEMA COUNTRIES" WAS UNDERTAKEN LAST YEAR TO SPRUCE UP ITS NEUTRAL IMAGE WHEN IT LOOKED AS IF THE FINNISH-EC AGREEMENT WAS ABOUT TO BE VETOED BY THE USSR. THE USSR HAD ALREADY BEEN EXTENDED FREE-TRADE PRIVILEGES DURING A SIMILAR DRAMA IN CONNECTION WITH THE FINN-EFTA AGREEMENT SIGNED IN 1961. THE FINNISH INITIATIVE RESULTED IN A) AN AGREEMENT TO ATTEMPT TO COOPERATE WITH CEMA AS A BODY, AND B) OFFER TO NEGOTIATE BI-LATERAL "FREE TRADE AGREEMENTS" WITH CEMA MEMBER STATES.

2. FIRST AGREEMENT TO APPEAR WAS WITH BULGARIA, FOLLOWED SHORTLY BY HUNGARIAN ONE. OTHER AGREEMENTS HAVE MET WITH INDIVIDUAL PROBLEMS (TRADE WITH POLAND AND CZECHOSLOVAKIA IS SETTLED IN CONVERTIBLE CURRENCIES, POLAND DOES NOT USE TARIFFS, ROMANIA DOES NOT APPEAR TO BE INTERESTED, ETC.) BUT WILL PRESUMABLY BE WORKED OUT ONE BY ONE. TEXTS OF AGREEMENTS WITH BULGARIA AND HUNGARY ARE ALMOST IDENTICAL. CONTRACTING PARTIES EXTEND EACH OTHER TARIFF REDUCTIONS SIMILAR TO THOSE IN FINNISH-EC AGREEMENT WITH EXCEPTION OF AGRICULTURAL PRODUCTS WHICH ARE SEPARATELY ENUMERATED, AND "SENSITIVE LIST" WITH RETARDED TARIFF REDUCTION. TREATIES CONTAIN STANDARD MARKET DISTURBANCE AND BALANCE OF PAYMENTS SAFEGUARDS CLAUSES. CURIOUSLY, HUNGARIAN TREATY MAKES REFERENCE TO GATT AND IMF WHILE BULGARIAN ONE DOES NOT (NEITHER COUNTRY IS MEMBER). MAIN DIFFERENCE IN AGREEMENTS IS IN RETARDED LIMITED OFFICIAL USE

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TARIFF REDUCTION LIST CONTAINED IN PROTOCOL 2. FINNISH LIST IS IDENTICAL IN BOTH TREATIES AND IS VERY SIMILAR (BUT SLIGHTLY STRICTER) THAN CORRESPONDING LIST IN FINNISH-EC TREATY, LISTING 138 TWO-DIGIT BTN CATEGORIES. AGAINST THIS, BULGARIA CAME UP WITH 12 PROTECTED CATEGORIES AND HUNGARY WITH 106 CATEGORIES, PRESUMABLY REFLECTING A) HUNGARIAN ATTEMPT TO DEVELOP CLOSER CORRESPONDENCE BETWEEN DOMESTIC AND WORLD FOREIGN TRADE

PRICES AND B) HUNGARY HAS MORE INDUSTRIES TO PROTECT THAN BULGARIA. UNFORTUNATELY, THE RULES OF ORIGIN--45 HARD-TO-UNDERSTAND PAGES--WERE TAKEN ALMOST VERBATIM FROM THE EC/EFTA RULES (MINUS THE INAPPLICABLE PROVISIONS) AN UNFORTUNATE PROLIFERATION INTO AN AREA WHERE THEIR APPLICATION IS UNNECESSARY.

3. EFFECT ON TRADE: SINCE NON-CONVERTIBLE UNIT OF ACCOUNT CLEARING SYSTEM OF PAYMENTS REMAINS IN FORCE BETWEEN FINLAND AND BOTH COUNTRIES, THERE IS POWERFUL DISINCENTIVE TO RUN CONTINUAL PAYMENTS SURPLUS. THEORETICAL LIMITS ON IMBALANCE (\$2 MILLION WITH HUNGARY AND \$700,000 WITH BULGARIA) ARE IN PRACTICE EXCEEDED, BUT COUNTRY RUNNING SURPLUS HAS OPTION OF RESTRICTING EXPORTS. FOR THIS REASON, THE ADVANTAGES GAINED BY A BALANCED REDUCTION OF IMPORT BARRIERS BECOMES LESS MEANINGFUL. AS IS EVIDENT FROM THE AGREEMENTS, HOWEVER, BOTH FINLAND AND HUNGARY FELT IT IMPORTANT TO RETAIN SOME PROTECTION ON A SECTOR-BY-SECTOR BASIS. AS FOR BULGARIA, IT WAS ALREADY ELIGIBLE AS OF APRIL 1973 FOR FINLAND'S GENERALIZES SYSTEM OF PREFERENCES TREATMENT AS A DEVELOPING COUNTRY, AND FINNISH-BULGARIAN TRADE CAN BE EXPECTED TO CONTINUE AT ITS NATURALLY LIMITED LEVEL--ESSENTIALLY BARTER OF AGRICULTURAL PRODUCTS AGAINST MANUFACTURED GOODS.

4. PRINCIPAL MOTIVE BEHIND SERIES OF FREE TRADE AGREEMENTS WITH CEMA COUNTRIES IS POLITICAL AND COSMETIC. FINNS BELIEVE, HOWEVER, THAT TECHNIQUE OF CONTINUAL NEGOTIATIONS, DELEGATION VISITS, DECLARATIONS, FORMATION OF JOINT COMMISSIONS, ETC., WITH THE COMMUNIST COUNTRIES EVENTUALLY LEADS TO MUTUALLY BENEFICIAL RESULTS AND THEY VIEW CEMA NEGOTIATIONS AS ANOTHER ELEMENT IN FINNISH LIMITED OFFICIAL USE

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ROLE IN EAST-WEST RAPPROCHEMENT. FOR THEIR PART THE EASTERN EUROPEAN COUNTRIES APPEAR TO SEE LITTLE BENEFIT, EITHER ECONOMIC OR POLITICAL, FOR THEM IN SUCH AGREEMENTS. AS ALREADY REPORTED, ONLY HUNGARY, AND EVEN IT BELATEDLY, SEEM TO VALUE ITS FREE TRADE AGREEMENT WITH FINLAND AS OF POTENTIAL REAL BENEFIT IN EXPANDING TRADE.

5. TWO COPIES OF BULGARIAN AGREEMENT AND ONE OF HUNGARIAN AGREEMENT HAVE BEEN AIR POUCHED TO EUR/NE, ATTENTION BUELL, FOR PASSING ON TO AMBASSADOR MALMGREN'S OFFICE AND TO STATE ACTION OFFICE.
KREHBIEL

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